



AUDITOR - GENERAL  
SOUTH AFRICA

Auditing to build public confidence

## Report of the auditor-general to the North West provincial legislature and the council on the Kagisano Molopo Local Municipality

### Report on the audit of the financial statements

#### Qualified opinion

1. I have audited the financial statements of Kagisano Molopo Local Municipality set out on pages XX to XX which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of Kagisano Molopo Local Municipality as at 30 June 2019, and the financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (DoRA).

#### Basis for qualified opinion

##### Accumulated surplus

3. I was unable to obtain sufficient appropriate audit evidence for adjustments made to the accumulated surplus for correction of errors relating to the prior year. I could not confirm the accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to accumulated surplus of R518 195 048 (2018: R526 910 227) as presented in the statement of changes in net assets.

##### Irregular expenditure

4. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality incurred expenses of R29 134 045 (2018: R33 640 804) in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for amounts included in irregular expenditure disclosed for the current and previous year or that awards of R54 483 087 were made in terms of the supply chain management requirements. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to irregular expenditure of R450 394 489 (2018: R391 153 520) as disclosed in note 45 to the financial statements.

##### Property, plant and equipment

5. The municipality did not adequately review the useful lives of property, plant and equipment at each reporting date as required by GRAP 17, *Property, plant and equipment*. I was unable to determine the impact on the net carrying amount of property, plant and equipment as it was



impracticable to do so. In addition, the municipality incorrectly classified infrastructure assets as buildings resulting in buildings being overstated by R1 650 423 and infrastructure assets understated by the same amount. Property, plant and equipment was also overstated by R24 346 403 due to significant differences between invoiced amounts and amounts recorded in respect of work in progress. Additionally, there was an impact on the deficit for the year and the accumulated surplus. Furthermore, I was unable to obtain sufficient appropriate audit evidence for disposals of R18 044 231 and I could not confirm these disposals by alternative means. Consequently, I was unable to determine whether any further adjustment to property, plant and equipment of R477 024 788 (2018: R474 929 454) as disclosed in note 4 to the financial statements was necessary.

### **Investment property**

6. I was unable to obtain sufficient appropriate audit evidence for investment property as the information considered necessary to substantiate a journal entry could not be provided. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to investment property of R43 260 729 as disclosed in note 3 to the financial statements.

### **Trade payables**

7. I was unable to obtain sufficient appropriate audit evidence for trade payables as the information considered necessary to substantiate the transactions in the general ledger could not be provided. I was unable to confirm trade payables by alternative means. Consequently, I was unable to determine whether any adjustment to trade payables of R14 352 503 included in payables from exchange transactions as disclosed in note 14 to the financial statements was necessary.

### **Commitments**

8. I was unable to obtain sufficient appropriate audit evidence for commitments as the municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I was unable to confirm these commitments by alternative means. In addition, commitments were understated by R8 109 326 due to the incorrect calculation of commitments by the municipality. Consequently, I was unable to determine whether any further adjustment to commitments of R63 257 442 (2018: R103 936 655) as disclosed in note 35 to the financial statements was necessary.

### **Context for the opinion**

9. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
10. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants and, parts 1 and 3 of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Material uncertainty relating to going concern**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.



13. As disclosed in note 42 to the financial statements, as of 30 June 2019 the municipality had a deficit for the year of R8 561 880, however the municipality's total assets exceeded its liabilities by R518 195 048. This along with other matters as set forth in note 42 to the financial statements indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

### **Emphasis of matter**

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unauthorised and fruitless and wasteful expenditure**

15. As disclosed in the note 43 to the financial statements, unauthorised expenditure of R58 209 123 was incurred in the current year and the unauthorised expenditure of R165 882 234 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.
16. As disclosed in the note 44 to the financial statement, fruitless and wasteful expenditure of R289 695 was incurred in the current year and the fruitless and wasteful expenditure of R1 984 163 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.

### **Responsibilities of accounting officer for the financial statements**

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
18. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

19. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

21. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected



programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

22. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
23. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the municipality for the year ended 30 June 2019:

Programmes	Pages in the annual performance report
Programme 2 - Basic services and infrastructure development	x – x
Programme 3 - Local economic development and community services	x – x

24. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
25. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

## Programme 2 - Basic services and infrastructure development

### Various strategic objectives

26. The strategic objectives approved in the Service Delivery and Budget Implementation Plan (SDBIP) were inconsistent with the strategic objectives reported in the annual performance report (APR). In addition, these changes were not approved as follows:

Strategic objective per SDBIP	Strategic objective per APR
Eradicate backlogs in order to improve access to services	7 Housing Program Meetings Attended 8 Electricity Project Management Meetings Attended 4 Housing Sanitation Program Meetings Attended
Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	8 Rural Water Supply Meetings Attended 60 High mast lights constructed at Gamodisenyanane (ward 1) and Kudungwane (ward 1)

27. The following strategic objectives approved in the SDBIP were not reported in the annual performance report and these changes were not approved:

<b>Strategic objective per SDBIP</b>
Eradicate backlogs in order to improve access to recreational facilities
Fencing of graveyards

### Various indicators

28. The achievements reported in the annual performance report for the following indicators did not agree to the supporting evidence provided:

<b>Indicator description</b>	<b>Reported achievement</b>	<b>Audited value</b>
4 Housing Project Management Meetings Attended by 30 June 2019	2	1
4 Portfolio Committee meetings coordinated by 30 June 2019	3	2
Timeous submission of PMS quarterly reports to the office of the Municipal Manager within 15 Days after the end of each Quarter	4	3
Municipal PMS quarterly reports submitted	4	1
Number of fenced cemeteries for all 15 Kagisano-Molopo Wards	0	26

29. I was unable to obtain sufficient appropriate audit evidence for the reported achievement for the following indicators. This was due to the municipality not having an adequate record keeping system to enable reliable reporting on achievement of these indicators. I was also unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements of the indicators listed below:

<b>Indicator description</b>	<b>Reported achievement</b>
Responses to the internal auditor's findings within 30 days after receipt of the report	4
Timeous submission of 2018/2019 Mid Term Report to the Mayor, National Provincial Treasury and DLGHS	1
Timeous submission of 2017/2018 Annual Performance Report to the office of Auditor General of South Africa	1

## Programme 2 - Local economic development and community services

### Various indicators

30. The achievements reported in the annual performance report for the following indicators did not agree to the supporting evidence provided:

<b>Indicator description</b>	<b>Reported achievement</b>	<b>Audited value</b>
Risk Register Updates conducted per Department	4	3
Number of Library awareness campaigns/ program held for Ganyesa, Morokweng, Tosca, Tlakgameng	72	40
Number of SMMEs supported per plan	2	3
Number of recycling program's per project implementation plan	0	3

Indicator description	Reported achievement	Audited value
Number of programs implemented at Bona-Bona (Driefontein Heritage Site) per project implementation plan	2	0
Number of Disaster Awareness Campaigns conducted	2	4

31. I was unable to obtain sufficient appropriate audit evidence for the reported achievement for the following indicators. This was due to the municipality not having an adequate record keeping system to enable reliable reporting on achievement of these indicators. I was also unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements of the indicators listed below:

Indicator description	Reported achievement
4 Portfolio Committee meetings coordinated by 30 June 2019	4
Timeous submission of PMS quarterly reports to the office of the Municipal Manager within 15 Days after the end of each Quarter	3
Municipal PMS quarterly reports submitted	3
Responses to the internal auditor's findings within 30 days after receipt of the report	4
Timeous submission of 2018/2019 Mid Term Report to the Mayor, National Provincial Treasury and DLGHS	1
Timeous submission of 2017/2018 Annual Performance Report to the office of Auditor General of South Africa	1
Number of jobs created through EPWP	619
Number of Goat Massification programs implemented per project implementation plan	3
Number of reports on Thusong centres accessible for Government Departments services at Morokweng, Tlakgameng and Kgokgojane	12
% Relief Material Provided to reported Disaster Victims	100%
Number of reports on cleaning monitored through EPWP per plan	4

## Other matter

32. I draw attention to the matter below.

## Achievement of planned targets

33. Refer to the annual performance report on pages 39 to 70 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 26 to 31 of this report.

## Report on the audit of compliance with legislation

## Introduction and scope

34. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.





35. The material findings on compliance with specific matters in key legislations are as follows:

#### Financial statements

36. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, current liabilities and disclosure items were identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.
37. The financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

#### Revenue management

38. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
39. I was unable to obtain sufficient appropriate audit evidence that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

#### Procurements and contract management

40. Sufficient appropriate audit evidence could not be obtained that all contracts and bids were awarded in accordance with the legislative requirements as contracts were not available for audit and bids could not be provided for audit. Similar limitation was also reported in the prior year.
41. Sufficient appropriate audit evidence could not be obtained that bid specifications were unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a). Similar non-compliance was also reported in the prior year.
42. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
43. Sufficient appropriate audit evidence could not be obtained that some of the contracts were awarded through competitive bidding processes that were adjudicated by the bid adjudication committee. Similar non-compliance was also reported in the prior year.
44. Sufficient appropriate audit evidence could not be obtained that bid adjudication committees were always composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.
45. Sufficient appropriate audit evidence could not be obtained that some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b). Similar non-compliance was also reported in the prior year.
46. Sufficient appropriate audit evidence could not be obtained to confirm that councillors of the municipality participated in committees evaluating or approving tenders, quotations or attended meetings of committees evaluating and approving tenders and quotations, in contravention of section 117 of the MFMA.
47. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
48. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

49. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contracts in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.
50. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5. Similar non-compliance was also reported in the prior year.
51. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
52. Sufficient appropriate audit evidence could not be obtained that the contract performance and monitoring measures and methods were sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.
53. Awards were made to providers who were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

### **Expenditure management**

54. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The irregular expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph.
55. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R289 695, as disclosed in note 44 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on supplier accounts.
56. Reasonable steps were not taken to prevent unauthorised expenditure of R58 209 123, as disclosed in note 43 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of various votes.

### **Assets management**

57. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
58. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

### **Liability management**

59. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
60. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

### **Consequence management**

61. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.





## Other information

62. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
63. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
64. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
65. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary

## Internal control deficiencies

66. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
  - Leadership did not adequately exercise their oversight responsibility regarding financial and performance reporting and compliance with legislation. The municipality did not have sufficient monitoring and reviewing controls to ensure that financial and performance reports submitted for audit were accurate and complete and that action plans developed were adequately and timeously implemented to address all prior year audit findings. The implementation thereof was mostly done through consultants with limited transfer of skills to own staff.
  - Management's inability to implement controls to comply with laws and regulations as well as to ensure reliable and accurate financial and performance reporting, is a concern. This factor, as well as the continuous non adherence with the council's supply chain management policy without consequences reflects negatively on management's commitment towards a clean administration.
  - There is a lack of consequences with regard to compliance with legislation, specifically those relating to procurement and contract management and the management of irregular, fruitless and wasteful and unauthorised expenditure.
  - There is an overreliance on the work of consultants without adequate internal review processes.
  - The audit committee did not adequately review the financial statements and the performance report before it was submitted for audit.

## Other reports

67. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

## Investigation

68. The municipality initiated special investigations into allegations relating to financial misconduct, fraud or improper conduct in supply chain management against two officials of the municipality. The investigations were still ongoing at the date of this report.

*Auditor General*

Potchefstroom

30 January 2020



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## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Kagisano-Molopo Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.